



**BRITISH LINEN FINANCE LIMITED**

**ANNUAL REPORT AND ACCOUNTS  
FOR THE PERIOD ENDED  
31 December 2001**

**COMPANY NUMBER 1335072**

13-5-02 354

## BRITISH LINEN FINANCE LIMITED

### DIRECTORS' REPORT 2001

The directors submit this report and accounts of British Linen Finance Limited for the period ended 31 December 2001.

### RESULTS AND DIVIDEND

The profit of the company and its subsidiaries for the period amounted to £2,166,000 before taxation. After a tax credit of £110,000, the profit after taxation is £2,276,000. It is recommended that no final dividend be paid which leaves retained profits of £5,883,000 to be carried forward.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The group's principal business during the period was the provision of leasing and asset based finance in the United Kingdom. It is the intention to continue these activities to meet the requirements of lessees.

The Company has changed its accounting reference date to 31 December from 28 February to align its year-end with that of its ultimate parent undertaking, HBOS plc. Pursuant to schemes of arrangement under section 425 of the Companies Act Bank of Scotland (the previous ultimate parent undertaking) and Halifax Group became subsidiaries of HBOS on 10 September 2001. The merged Group has a 31 December accounting reference date.

These accounts are accordingly for a 10 month period.

### DIRECTORS AND THEIR INTERESTS

No director had a beneficial interest in the ordinary stock of the Company, nor in the preference stocks of HBOS plc, the company's ultimate parent undertaking during the period.

Further, no director had a beneficial interest in the shares of any undertaking within the Bank of Scotland Group up to 10 September 2001, or within HBOS Group, from that date, to the end of the period.

Under the terms of the merger, on 10 September 2001 each Halifax Group share or Bank of Scotland ordinary stock unit was exchanged for one HBOS plc ordinary stock unit.

Directors who served during the year and their beneficial interests in the ordinary stock units of HBOS plc, the ultimate parent undertaking, were as follows:

	<u>At 1 March 2001</u>	<u>At 31 December 2001</u>
	<u>Ordinary Stock Units</u>	<u>Ordinary Stock Units</u>
	<u>of 25p each</u>	<u>of 25p each</u>
G Barclay	53,744	53,912
A Manser	12,577	16,316
P E Ross	-	-
M Selwood	-	-

Options to subscribe for ordinary stock of HBOS plc were granted to or exercised by directors during the period to 31 December 2001 as follows:

### EXECUTIVE STOCK OPTIONS HELD BY DIRECTORS

	<u>*OPTIONS</u>	<u>*OPTIONS</u>	<u>*OPTIONS</u>	<u>*OPTIONS</u>
	<u>HELD AS</u>	<u>GRANTED</u>	<u>EXERCISED</u>	<u>HELD AS</u>
	<u>AT 01.03.01</u>			<u>AT 31.12.01</u>
G Barclay	139,000	-	-	139,000
A Manser	31,000	-	-	31,000

\* Ordinary Stock Units of 25p each.

Bank of Scotland policy is to make an annual grant of options over the ten year life of the Executive Stock Option Scheme.

# **BRITISH LINEN FINANCE LIMITED**

## **DIRECTORS' REPORT (Continued)**

### **SAVINGS RELATED STOCK OPTIONS HELD BY DIRECTORS**

	<u>*OPTIONS HELD AS AT 01.03.01</u>	<u>*OPTIONS GRANTED</u>	<u>*OPTIONS EXERCISED</u>	<u>*OPTIONS HELD AS AT 31.12.01</u>
G Barclay	-	1,723	-	1,723
A Manser	9,101	336	2,644	6,793

\*Ordinary Stock Units of 25p each.

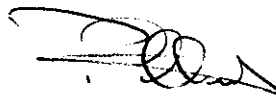
At the beginning of the financial period, the interests of the directors were in Bank of Scotland Ordinary Stock Units/Halifax plc shares.

### **AUDITORS**

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Capital House  
Queens Park Road  
Handbridge  
Chester  
Cheshire, CH88 3AN

By order of the board



P Gittins  
Secretary

## **BRITISH LINEN FINANCE LIMITED**

### **DIRECTORS' ACCOUNTING RESPONSIBILITIES**

The directors are required to prepare accounts for each financial year which comply with Part VII of the Companies Act 1985 and which give a true and fair view of the state of affairs of the company as at the end of the year and of the profit or loss for the year. The directors consider that in preparing the accounts on pages 5 to 14 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all Accounting Standards which they consider applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the accounts comply with Part VII of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are satisfied that it is appropriate for these accounts to have been prepared on a going concern basis.

The directors acknowledge their responsibility for the maintenance of systems of internal control, the effectiveness of which they regularly review. These controls are designed to provide reasonable (but cannot provide absolute) assurance on the reliability of the company's systems for identification and management of risk, the maintenance of proper control over the assets and liabilities of the company and the accuracy and reliability of the company's information system.

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF BRITISH LINEN FINANCE LIMITED**

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention and on the basis of accounting policies set out on page 8.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3 the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2001 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
1 Forest Gate  
Brighton Road  
Crawley RH11 9PT

*20 May 2002*

**BRITISH LINEN FINANCE LIMITED**

**GROUP PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 31 DECEMBER 2001**

	Notes	10 months to 31 December 2001 £000s	Year to 28 February 2001 £000s
Gross earnings	2	17,619	17,512
Interest payable	3	<u>(8,320)</u>	<u>(7,865)</u>
Gross profit		9,299	9,647
Administrative expenses		<u>(7,133)</u>	<u>(7,123)</u>
Operating profit on ordinary activities before taxation	4	2,166	2,524
Tax charge on profit on ordinary activities	5	110	726
Profit for the period		<u><u>2,276</u></u>	<u><u>3,250</u></u>

**STATEMENT OF ACCUMULATED PROFITS/(LOSSES)**

Accumulated profit brought forward	3,607	357
Profit for the period	<u>2,276</u>	<u>3,250</u>
Accumulated profit carried forward	<u><u>5,883</u></u>	<u><u>3,607</u></u>

The group and company have no recognised gains or losses in either year, other than the profit for the year, all of which relates to current activities.

The notes on pages 8 to 14 form part of these accounts.

**BRITISH LINEN FINANCE LIMITED**

**GROUP BALANCE SHEET  
AS AT 31 DECEMBER 2001**

	Notes	31 December 2001 £000s	28 February 2001 £000s
<b>Fixed assets</b>			
Tangible assets	6	407	543
<b>Current assets</b>			
Finance lease receivables			
- due within one year	8	68,427	51,269
- due after more than one year	8	116,417	87,206
Debtors	9	9,593	7,820
Cash at bank and in hand		4	5
		<u>194,441</u>	<u>146,300</u>
<b>Creditors:</b>			
Amounts falling due within one year	10	<u>(94,705)</u>	<u>(71,218)</u>
Net current assets		99,736	75,082
<b>Total assets less current liabilities</b>		<u>100,143</u>	<u>75,625</u>
<b>Creditors:</b>			
Amounts falling due after more than one year	11	(91,147)	(68,905)
<b>Net assets</b>		<u>8,996</u>	<u>6,720</u>

**Capital and reserves**

Share capital	13	1,200	1,200
Share premium	13	1,889	1,889
Capital reserve	13	24	24
Reserves	13	5,883	3,607
<b>Equity shareholders funds</b>		<u>8,996</u>	<u>6,720</u>

These accounts were approved by the directors on 20 May 2002

The notes on pages 8 to 14 form part of these accounts.

Director

Name PHIL ROSS

**BRITISH LINEN FINANCE LIMITED**

**COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2001**

	Notes	31 December 2001 £000s	28 February 2001 £000s
<b>Fixed assets</b>			
Tangible assets	6	345	452
<b>Investments:</b>			
Shares in subsidiary undertaking	7	489	489
<b>Current assets</b>			
Finance lease receivables			
- due within one year	8	50,636	39,771
- due after more than one year	8	80,273	67,071
Debtors			
- due within one year	9	29,045	16,847
- due after more than one year	9	20,654	8,785
		<u>180,608</u>	<u>132,474</u>
<b>Creditors:</b>			
Amounts falling due within one year	10	<u>(92,578)</u>	<u>(67,658)</u>
<b>Net current assets</b>		88,030	64,816
<b>Total assets less current liabilities</b>		<u>88,864</u>	<u>65,757</u>
<b>Creditors:</b>			
Amounts falling due after more than one year	11	(91,147)	(68,905)
<b>Net liabilities</b>		<u>(2,283)</u>	<u>(3,148)</u>
<b>Capital and reserves</b>			
Share capital	13	1,200	1,200
Share premium	13	1,889	1,889
Reserves	13	(5,372)	(6,237)
Equity shareholders funds		<u>(2,283)</u>	<u>(3,148)</u>

These accounts were approved by the directors on *20 May 2002*

The notes on pages 8 to 14 form part of these accounts.

Director

Name *PHIL ROSS*

## **BRITISH LINEN FINANCE LIMITED**

### **NOTES ON THE ACCOUNTS FOR THE PERIOD ENDED 31 DECEMBER 2001**

#### **1) Accounting policies**

The Company's accounting policies, detailed below, are unchanged from the previous year.

##### **a) Basis of preparation**

The accounts have been prepared under the historical cost convention modified by the revaluation of certain properties and investments and in accordance with currently applicable accounting standards and statements of recommended practice.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash-flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The Company has taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with related parties that are part of the Bank of Scotland group or associated undertakings.

##### **b) Basis of consolidation**

The group accounts consolidate the accounts of British Linen Finance Limited and its subsidiary undertakings, Saleslease Limited, Saleslease Purchase Limited, Arrears Collection Enforcement Limited, Keystone Cover Limited, CF Asset Finance Limited and CFAF Cover Limited drawn up to the 31 December 2001.

No profit and loss account is provided for British Linen Finance Limited as permitted by Section 230 Companies Act 1985.

##### **c) Finance leases, instalment credit and operating leases**

Income from assets leased to customers and from instalment credit agreements is determined by spreading interest and charges over the period of repayment in proportion to the net cash investment.

The net investments in finance leases are included as amounts receivable in advances.

##### **d) Depreciation**

Depreciation is provided on all tangible fixed assets, at the rates shown, calculated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Fixtures and fittings	20% p.a. on a reducing balance basis
Motor vehicles	25% p.a. on a reducing balance basis

##### **e) Bad and doubtful debts**

Specific provisions are made for finance lease receivables, instalment credit and operating lease assets which are recognised to be bad or doubtful. A general provision, to cover advances which are latently bad or doubtful, but not yet identified as such, is also maintained. Provisions made during the year are charged to revenue, net of recoveries.

Finance lease receivables and instalment credit are stated net of provisions in the balance sheet.

##### **f) Deferred taxation**

The charge for taxation takes into account the timing differences in the accounting and taxation treatment of certain items to the extent that they are expected to reverse in the future. Full provision deferred taxation is made on the liability method.

# BRITISH LINEN FINANCE LIMITED

## NOTES ON THE ACCOUNTS (Continued)

### 1) Accounting policies (continued)

#### g) Pension contributions

The group makes contributions to a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable to the scheme in respect of the accounting period.

### 2) Turnover

Turnover is attributable to the one principal activity of the company which arose wholly in the United Kingdom.

### 3) Interest payable

	10 months to 31 December 2001 £000s	Year to 28 February 2001 £000s
On borrowing from British Linen Bank group	8,249	7,753
Bank of Scotland	25	67
Other interest	46	45
	<u>8,320</u>	<u>7,865</u>

### 4) Operating profit

The operating profit of £2,166,000 (28/02/01 - £2,524,000) is stated after crediting lease rentals receivable, commissions, fees and proceeds on the sale of leased equipment totalling £76,912,000 (28/02/01 - £73,676,000), after charging provisions for bad and doubtful debts of £4,616,000 (28/02/01 - £3,365,000), and after:

	10 months to 31 December 2001 £000s	Year to 28 February 2001 £000s
Auditor's remuneration - audit	23	23
Depreciation of fixed assets	87	149
Disposal of fixed assets - loss	21	21
	<u>131</u>	<u>193</u>

Audit costs of the parent company were £8,000 (28/02/01 - £8,000)

#### Staff costs

Wages and salaries	1,477	1,577
Social security	111	139
Pension	84	100
	<u>1,672</u>	<u>1,816</u>

#### Directors' remuneration

Directors' emoluments	135	134
Social security	14	16
Pension	10	11
	<u>159</u>	<u>161</u>

The average weekly number of employees during the year was as follows:

	Number	Number
Sales	35	32
Administrative	28	28
	<u>63</u>	<u>60</u>

# BRITISH LINEN FINANCE LIMITED

## NOTES ON THE ACCOUNTS (Continued)

### 5) Taxation

The tax charge on profits for the year is made up as follows:

	10 months to 31 December 2001 £000s	Year to 28 February 2001 £000s
Corporation tax	(19)	(806)
Deferred taxation	327	1,611
Deferred tax asset written off	(327)	(1,611)
Tax recoverable for the year	(19)	(806)
Under/(over) provision in respect to priors years		
Corporation tax	(91)	80
	<u>(110)</u>	<u>(726)</u>

It is assumed that group relief will be available for corporation tax losses.

### 6) Tangible fixed assets

	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Total £000s
<b>GROUP</b>			
<b>Cost</b>			
At 1st March 2001	766	270	1,036
Additions	16	-	16
Disposals	(43)	(94)	(137)
At 31st December 2001	<u>739</u>	<u>176</u>	<u>915</u>

#### Depreciation

At 1st March 2001	375	118	493
Charge for the year	65	22	87
Disposals	(24)	(48)	(72)
At 31st December 2001	<u>416</u>	<u>92</u>	<u>508</u>

#### Net book value

At 31st December 2001	<u>323</u>	<u>84</u>	<u>407</u>
At 28th February 2001	<u>391</u>	<u>152</u>	<u>543</u>

	Fixtures, fittings & equipment £000s	Motor vehicles £000s	Total £000s
<b>COMPANY</b>			
<b>Cost</b>			
At 1st March 2001	542	239	781
Additions	16	-	16
Disposals	(23)	(63)	(86)
At 31st December 2001	<u>535</u>	<u>176</u>	<u>711</u>

#### Depreciation

At 1st March 2001	231	98	329
Charge for the year	53	22	75
Disposals	(11)	(27)	(38)
At 31st December 2001	<u>273</u>	<u>93</u>	<u>366</u>

#### Net book value

At 31st December 2001	<u>262</u>	<u>83</u>	<u>345</u>
At 28th February 2001	<u>311</u>	<u>141</u>	<u>452</u>

# BRITISH LINEN FINANCE LIMITED

## NOTES ON THE ACCOUNTS (Continued)

### 7) Shares in subsidiary undertakings

The following holding relates to ordinary share capital. No other share capital is held in Saleslease Limited, Saleslease Purchase Limited, Arrears Collection Enforcement Limited, Keystone Cover Limited, CF Asset Finance Limited all of which are wholly owned subsidiaries and are registered in Scotland, with the exception of Arrears Collection Enforcement Limited which is registered in England. The principal activities of Saleslease Limited, Saleslease Purchase Limited and CF Asset Finance Limited are equipment leasing and hire purchase. The principal activity of Arrears Collection Services Limited is debt collection and that of Keystone Cover Limited and CFAF Cover Limited is the sale of Keyman and asset insurance.

All the subsidiaries have an end of December accounting reference date.

Cost at 1 March 2001 and 31 December 2001 £000s  
489

### 8) Finance lease receivables

	Group		Company	
	31 December 2001 £000s	28 February 2001 £000s	31 December 2001 £000s	28 February 2001 £000s
Rentals receivable for leased equipment (Net of provisions for bad and doubtful debts)	226,474	170,421	159,740	131,408
Less: Income allocated to future periods	(41,630)	(31,946)	(28,831)	(24,566)
	<u>184,844</u>	<u>138,475</u>	<u>130,909</u>	<u>106,842</u>
Amounts receivable:				
- within one year	68,427	51,269	50,636	39,771
- after more than one year	116,417	87,206	80,273	67,071
	<u>184,844</u>	<u>138,475</u>	<u>130,909</u>	<u>106,842</u>

The cost of equipment acquired during the period for letting under finance by the group was £ 114,939,000 (28/02/01 - £107,085,000) and by the company £75,971,000 (28/02/01 - £78,250,000)

Included in finance lease receivables is £19,568,000 (28/02/01 - £15,141,000) due to the Group and £nil (28/02/01 - £nil) due to the company in connection with instalment credit contracts of which £8,372,000 (28/02/01 - £6,367,000) and £nil (28/02/01 - £nil) is receivable within one year by the Group and the Company respectively.

### 9) Debtors

	Group		Company	
	31 December 2001 £000s	28 February 2001 £000s	31 December 2001 £000s	28 February 2001 £000s
Trade debtors	1,088	914	717	559
Other debtors	8,471	6,074	48,137	23,041
Taxation recoverable	34	832	845	2,032
	<u>9,593</u>	<u>7,820</u>	<u>49,699</u>	<u>25,632</u>
Amounts receivable:				
- within one year	9,593	7,820	29,045	16,847
- after more than one year	-	-	20,654	8,785
	<u>9,593</u>	<u>7,820</u>	<u>49,699</u>	<u>25,632</u>

# BRITISH LINEN FINANCE LIMITED

## NOTES TO THE ACCOUNTS (Continued)

### 10) Creditors: amounts falling due within one year

	Group		Company	
	31 December	28 February	31 December	28 February
	2001	2001	2001	2001
	£000s	£000s	£000s	£000s
Bank overdrafts	483	1,067	49	232
Trade creditors	999	955	804	851
Other creditors	1,152	630	1,079	420
Amounts due to:				
British Linen Bank group undertakings	90,188	65,761	89,784	64,160
Bank of Scotland	1,883	2,805	862	1,995
	<u>94,705</u>	<u>71,218</u>	<u>92,578</u>	<u>67,658</u>

### 11) Creditors: amounts falling due after more than one year

	Group		Company	
	31 December	28 February	31 December	28 February
	2001	2001	2001	2001
	£000s	£000s	£000s	£000s
Amounts due to:				
British Linen Bank group undertakings	91,147	68,905	91,147	68,905
	<u>91,147</u>	<u>68,905</u>	<u>91,147</u>	<u>68,905</u>

All amounts due are repayable within 5 years.

### 12) Deferred taxation

	Unprovided	
	31 December	28 February
	2001	2001
	£000s	£000s
Group:		
Difference between accumulated depreciation and amortisation and capital allowances:		
Brought forward asset	1,168	2,779
Movement in the year	(327)	(1,611)
Carried forward asset	<u>841</u>	<u>1,168</u>
	Unprovided	
	31 December	28 February
	2001	2001
	£000s	£000s
Company:		
Difference between accumulated depreciation and amortisation and capital allowances:		
Brought forward asset	769	2,920
Movement in the year	(550)	(2,151)
Carried forward asset	<u>219</u>	<u>769</u>

In accordance with SSAP 15 no deferred tax asset has been recognised in the accounts

# BRITISH LINEN FINANCE LIMITED

## NOTES TO THE ACCOUNTS (Continued)

### 13) Shareholders' funds and movements in reserves

	Share capital £000s	Share premium £000s	Capital reserve £000s	Profit & loss account £000s	Total £000s
<b>GROUP</b>					
At 1 March 2001	1,200	1,889	24	3,607	6,720
Profit for the year	-	-	-	2,276	2,276
At 31 December 2001	<u>1,200</u>	<u>1,889</u>	<u>24</u>	<u>5,883</u>	<u>8,996</u>
<b>COMPANY</b>					
At 1 March 2001	1,200	1,889		(6,237)	(3,148)
Profit for the year	-	-		865	865
At 31 December 2001	<u>1,200</u>	<u>1,889</u>		<u>(5,372)</u>	<u>(2,283)</u>
Share capital					£000s
At 1 March 2001 and 31 December 2001					
Authorised, issued and fully paid					
'A' ordinary shares of £1 each					450
'B' ordinary shares of £1 each					<u>750</u>
					<u>1,200</u>

Shareholders' funds are entirely attributable to equity interests.

### 14) Pension costs

The group makes contributions to a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the group to the funds and amounted to £84,319 (28/02/01 - £100,057) for the year.

### 15) Property Rental Obligations

There were annual commitments under non-cancellable operating leases as set out below:

	Group and Company Land and Buildings	
	31 December 2001 £000s	28 February 2001 £000s
Operating leases which expire:		
In less than one year	-	8
In the second to fifth years inclusive	-	-
Over five years	<u>60</u>	<u>60</u>
	<u>60</u>	<u>68</u>

### 16) Ultimate parent undertaking

The directors consider the ultimate parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member to be HBOS plc. A copy of the Annual Report and Accounts of the ultimate parent undertaking can be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.

The parent undertaking in whose accounts the company is first consolidated is British Linen Leasing Limited, registered in Scotland. Copies of its accounts can be obtained from its Head Office, Capital House, Queens Park Road, Chester.

### 17) Capital commitments

There were no capital commitments at the end of the year for which a provision should be made (28/02/01 - nil).

**BRITISH LINEN FINANCE LIMITED**

**NOTES TO THE ACCOUNTS (Continued)**

**18) Contingent Liability**

The group has entered into certain transactions which involve an amount of unguaranteed rental income at the end of the primary period of lease. As at 31 December 2001 these unguaranteed amounts totalled £491,433 (28 February 2001 - Nil). It is believed that these amounts will ultimately be received in full and as such no provision is made in the accounts.